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Bush threatens housing-aid veto

House of Representatives could vote on measure Wednesday

The Associated Press

updated 9:54 a.m. MT, Wed., May. 7, 2008

WASHINGTON - President Bush threatened Wednesday to veto Democrats' broad housing rescue package, saying it won't help struggling homeowners.

"We are committed to a good housing bill that will help folks stay in their house, as opposed to a housing bill that will reward speculators and lenders," Bush said at the White House after meeting with House Republican leaders.

The measure, aimed at preventing foreclosures, would have the government step in to insure up to \$300 billion in new mortgages for struggling homeowners. A House vote could come later Wednesday.

Bush's comments clouded the prospects for a bipartisan housing deal this year.

The bill by Rep. Barney Frank, D-Mass., would relax standards at the Federal Housing Administration so it could back more affordable, fixed-rate loans for borrowers currently too financially strapped to qualify.

Despite growing GOP support for the plan, especially among Republicans from areas hardest hit by the housing crisis, it could fall victim to an election-year fight over which party is doing more to help homeowners in need.

The White House calls the plan a burdensome bailout that would open taxpayers to too much risk.

It has also threatened that Bush would veto a separate bill to send \$15 billion to states to buy and fix up foreclosed properties. Officials say that measure rewards lenders and investors who own the property, and could act as an incentive for them to foreclose rather than find ways to help struggling borrowers stay in their homes.

The opposition comes despite Democrats' attempts to attract Republican support for their housing package by including a grab-bag of measures Bush has called for.

Those include legislation to overhaul the FHA, the Depression-era mortgage insurer, and to more tightly regulate Fannie Mae and Freddie Mac, the government-sponsored companies that finance home loans. Also part of the plan is a measure, which Bush has repeatedly requested, allowing state and local housing finance agencies to use tax-exempt bonds to refinance distressed subprime mortgages.

The plan's main element by Frank, the Financial Services Committee chairman, is projected to help roughly 500,000 borrowers at a cost of \$2.7 billion over the next five years. Under Frank's bill, the FHA would relax its standards to let debt-ridden homeowners refinance into more affordable, fixed-rate mortgages if their lenders agreed to take substantial losses on the original loans.

Borrowers would have to show they could afford to make payments on the new mortgages. They would have to share with FHA at least half of their proceeds if they profited from selling or refinancing again.

Frank, who has consulted on the plan with Treasury Secretary Henry M. Paulson and Federal Reserve Chairman Ben Bernanke, has picked up some Republican support, especially among lawmakers representing areas hit hardest by the housing crisis.

But GOP leaders strongly oppose the bill, which they say would help reckless borrowers who overextended themselves, unscrupulous lenders, and investors who tried to game the market at the expense of renters and homeowners who made wiser choices.

The plan is to be combined with \$11 billion in housing tax breaks, including a \$7,500 credit for first-time home-buyers that would function like a zero-interest government loan, to be paid off over 15 years.

As part of the package, the House is scheduled to vote on an amendment — bitterly opposed by the financial services industry but championed by governors — that would ensure that neither the FHA plan nor other banking laws pre-empt state foreclosure laws. It's aimed at letting states that have recently moved to make it harder to evict homeowners continue those efforts.